

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Inkster, Michigan	County Wayne
Fiscal Year End 6/30/07	Opinion Date December 20, 2007	Date Audit Report Submitted to State December 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

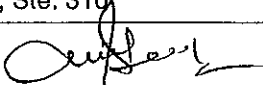
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Alan C. Young & Associates, PC		Telephone Number (313) 873-7500	
Street Address 2990 W. Grand Blvd., Ste. 310		City Detroit	State Zip MI 48202
Authorizing CPA Signature 		Printed Name Anil Sakhuja	License Number 110102118

CITY OF INKSTER, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2007

CITY OF INKSTER, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Inkster, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Inkster, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the of City of Inkster, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Inkster, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Inkster, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Inkster, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we will also be issuing a report on our consideration of the City of Inkster, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with government Auditing Standards and should be considered in assessing the results of our audit.

Alan C. Young; Assoc.
December 20, 2007

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

This section of the City of Inkster, Michigan's annual financial report presents our discussion and analysis of the City of Inkster, Michigan's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

GENERAL FUND ENDS YEAR WITH AN INCREASE TO FUND BALANCE: As discussed further in the fund financial statement analysis section of this report, the General Fund finished the year end June 30, 2007 with an increase in fund balance of \$352,810. This left the General Fund with a fund balance at June 30, 2007 of \$1,442,368.

INCREASE IN PROPERTY TAX VALUES: Property taxes are the City's largest source of revenue to the General Fund. The City's taxable value for 2007 increased 5.28% from 2006 taxable value (Real and Personal Property) of \$340,410,788 to a 2007 taxable value of \$358,374,465.

DECREASE IN STATE-SHARED REVENUES: State shared revenue; the second largest revenue source of the General Fund was again reduced by the State of Michigan from \$4,455,173 in fiscal year 2006 to \$4,420,369 in fiscal year 2007 in which totaled a decrease in the amount of \$34,804.

CARVER HOMES/ANNAPOLIS POINTE PROJECT: The Carver Homes/Annapolis Pointe Subdivision redevelopment Phase I continued throughout fiscal year 2007. Phase I includes one hundred eight (108) housing units. The majority of acquisition and relocation activities in both Phase I and II are complete. During the fiscal year ending June 30, 2006, the infrastructure and seventeen (17) housing units were constructed in Phase 1 along Annapolis Avenue. In the fiscal year ending June 30, 2007, seventeen (17) more units were constructed on Bridgeport and Crystal Court. In late summer of 2006, Crosswinds, Inc. began the construction of the additional ninety-one (91) units. In October 2006, the City of Inkster sold \$4,155,000 of Brownfield Redevelopment Bonds that will be paid for with future Brownfield Development tax captures. The bonds are used to pay for costs related to infrastructure and related activities in Phase I for the Carver Homes/Annapolis Pointe Subdivision redevelopment.

NEW CITY FUND: On May 2, 2006 the citizens of Inkster voted and approved a millage for parks, recreation, senior services and youth services. The City of Inkster established a special revenue fund to account for the activities of these services and remove them from the General Fund. The millage, which in any one year shall not exceed two mills, is for the ten year period of 2006 to 2016. The increased City revenue has been used to expand community programs for the City's senior and youth population as well as improvements such as parking lot lighting, refurbishing the gymnasium floor, a portable dance floor and a swimming pool slide at the Recreation Center. Furthermore, the Parks and Recreation Department is engaged in a fact finding and assessment for feasibility study regarding a senior citizen complex. In addition, the Department of Public Services has expanded the number of City staff workers to maintain the parks within the community of Inkster.

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

CSO PHASE II POSTPONED: In August 2003, Inkster voters approved an additional tax levy of \$12,000,000 to fund the Phase II project and in 2005 the City issued bonds for \$3,100,000. In the fiscal year ending June 2004, the City was successful in its appeal to the Michigan Department of Environmental Quality for an extension of time in which Phase II of the CSO elimination program would be completed. The City was granted an extension until 2007 to begin construction of the Phase II project, and until 2013 for its completion. The City was notified that our extension request has been approved and thus the issuance of bonds will not be necessary until 2007. The City is in the process of applying for a low interest rate (2.5%) loan from State of Michigan in the fourth quarter of 2008 in the amount of \$18,000,000 to defray the cost of CSO Phase II improvements.

NEW MUNICIPAL BUILDING 26215 TROWBRIDGE PURCHASE: The Tax Increment Financing Authority and the City of Inkster have a partnership underway and renovated a building at 26215 Trowbridge as a City Hall Municipal Complex. The building has double the usable space as a municipal facility. The acquisition and renovation of the building is being funded by the Tax Increment Finance Authority. The city and TIFA broke ground for renovation in October 2006, and moved into the building in the spring of 2007. The building houses City hall departments, City Council chambers, offices and a community room that will be available for the TIFA and community groups. The new City Hall Municipal Complex was officially dedicated in June, 2007.

RISK MANAGEMENT: Footnote nine to the Financial Statements serves to disclose the estimated liability for worker's compensation claims and general liability claims that have been incurred through the end of the fiscal year with comparative prior year values. With the guidance of the city attorney, contract modifications are being done by hiring staff, updating policies and procedures, modifying agreements with vendors, and other related business entities. Due to these modifications the City of Inkster hopes to control and assist in reducing this potential exposure of liability for worker's compensation claims and general liability claims. It should be noted that the aforementioned risk reduction measures helped the city reduce the estimated liability by \$383,447 from \$2,785,981 to \$2,402,534 in 2006 and 2007 respectively.

MAJOR AND LOCAL STREET PROJECTS: The Local Roads Improvement Program (three bond issues each for \$5 million) has been completed and almost all of the funding has been utilized. Achievements under this improvement program were approximately 30 miles of roads rehabilitation and four miles of water main replacements. The Carlysle Road Reconstruction Project is scheduled to start construction in the spring of 2008. This project will be funded with State and Federal Grant Funding.

Using this Annual Financial Report

This annual financial report consists of a management's discussion and analysis (this section), the basic financial statements, and other required supplementary information. In the basic financial statements section are two sets of financial statements along with the notes to the financial statements. A discussion on each set of financial statements follows.

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

The Government-Wide Financial Statements

The first set of financial statements is the government wide financial statements that include the statement of net assets and statement of activities on pages 10-12. These statements provide both long and short-term information about the City's overall financial status and are prepared on the full accrual basis of accounting.

The following tables present, in a condensed format, the government wide net assets (See Table 1) and changes in net assets (See Table 2) of the City as of June 30, 2007 and are compared to the prior fiscal year.

The following table shows, in a condensed format, the government-wide net assets of the City as of June 30, 2007 and is compared to the prior year:

TABLE 1

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current Assets	\$9,686,790	\$7,762,214	\$7,414,622	\$3,650,248	\$17,101,412	\$11,412,462
Restricted Assets	4,984,431	4,914,818	1,469,383	1,339,524	6,453,814	6,254,342
Capital Assets	20,340,901	18,018,254	29,483,505	28,874,190	49,824,406	46,892,444
Total Assets	35,012,122	30,695,286	38,367,510	33,863,962	73,379,632	64,559,248
Liabilities:						
Current Liabilities	5,528,685	5,399,292	2,672,154	1,785,338	8,200,839	7,184,630
Long-term Liabilities	17,262,681	14,561,955	10,416,822	8,162,906	27,679,503	22,724,861
Total Liabilities	22,791,366	19,961,247	13,088,976	9,948,244	35,880,342	29,909,491
Net Assets:						
Invested in Capital Assets-- Net of Related Debt	4,291,598	4,615,378	19,545,338	21,106,100	23,836,936	25,721,478
Restricted	8,624,737	8,007,495	118,118	118,118	8,742,855	8,125,613
Unrestricted (Deficit)	(695,579)	(1,888,834)	5,615,078	2,691,500	4,919,499	802,666
Total Net Assets	\$12,220,756	\$10,734,039	\$25,278,534	\$23,915,718	\$37,499,290	\$34,649,757

As shown in this table, the City of Inkster, Michigan's total net assets increased from a year ago. Net assets increased from \$34,649,757 to \$37,499,290.

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

The Government-Wide Financial Statements (Continued)

TABLE 2

The following table shows the changes of the net assets during the years ended June 30, 2007 and June 30, 2006:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program Revenue:						
Charges for Services	\$3,523,274	\$3,433,186	\$7,787,017	\$6,766,707	\$11,310,291	\$10,199,893
Operating Grants	4,305,619	3,959,264	0	0	\$4,305,619	\$3,959,264
General Revenue:						
Property taxes	8,196,433	7,286,265	1,142,356	1,146,910	\$9,338,789	\$8,433,175
State-shared Revenue	4,420,369	4,455,173	0	0	\$4,420,369	\$4,455,173
Investment Earnings	528,202	262,839	137,932	38,891	\$666,134	\$301,730
Franchise Fees	244,527	247,671	0	0	\$244,527	\$247,671
Miscellaneous	388,740	412,371	0	0	\$388,740	\$412,371
Healthcare Reimbursement	299,375	350,579	0	0	\$299,375	\$350,579
Total Revenue	21,906,539	20,407,348	9,067,305	7,952,508	\$30,973,844	\$28,359,856
Program Expenses						
General	3,534,042	2,482,817	0	0	\$3,534,042	\$2,482,817
Public Safety	8,673,127	8,080,128	0	0	\$8,673,127	\$8,080,128
Public Works	6,400,734	6,590,402	0	0	\$6,400,734	\$6,590,402
Recreation and Culture	1,544,578	911,269	0	0	\$1,544,578	\$911,269
Interest on Long-term Debt	267,341	222,682	0	0	\$267,341	\$222,682
Water and Sewer	0	0	7,704,489	7,809,561	\$7,704,489	\$7,809,561
Total Program Expenses	20,419,822	18,287,298	7,704,489	7,809,561	\$28,124,311	\$26,096,859
Change in Net Assets	\$1,486,717	\$2,120,050	\$1,362,816	\$142,947	\$2,849,533	\$2,262,997

Government activities include the City's General Fund and Major and Local Streets Funds and other governmental funds. These funds account for all general governmental activities.

The City's total governmental revenues increased \$1,499,191 from \$20,407,348 in FY 06 to \$21,906,539 in FY07. This amount represents a 7.3% increase and is due primarily to increases in property tax revenue in FY07.

Business type activities are comprised of the Utility Fund. This fund accounts for the water and sewage disposal services provided to the City of Inkster residents. The City of Inkster purchases water from the City of Detroit Water System and the Wayne County Rouge Valley Sewage Disposal System provides sewage treatment.

Charges to the City by Detroit for water and Wayne County for sewage treatment and disposal along with the City's operational and maintenance costs are reviewed annually to set the water and sewer rates for the fiscal year. As a result, the water and sewer fund rates were changed to reflect an increase of water rate from \$1.60 to \$1.68 per unit and the sewer rate from \$3.65 to \$3.83 per unit. The Utility Fund had an increase in net assets of \$1,362,816 for the year ended June 30, 2007.

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

Fund Financial Statements

The second sets of financial statements included in this report are the fund financial statements, which are found on pages 13-14. These statements present a short-term view and tell how city services were financed during the year as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The City's funds are created to manage money earmarked for specific purposes as well as to show accountability for certain activities. The Fiduciary Funds statements provide information about activities for which the City of Inkster, Michigan acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The major funds for fiscal year ending June 30, 2007 include the General Fund, Major Streets Fund and Local Streets Fund. The General Fund accounts for most of the City's general governmental services including public safety, public works, recreation, library, and general government. The Major and Local Streets Funds account for funds required by statute for use on maintenance of major and local streets within the City.

General Fund Budgetary Highlights

Before beginning the discussion on the General Fund budget, review the following table. This table shows the prior year actual results, the original budget the amended budget the current year actual results and the budget for next year.

	FY06 AUDITED ACTUAL	FY07 ORIGINAL BUDGET	FY07 AMENDED BUDGET	FY07 AUDITED ACTUAL
<u>REVENUES:</u>				
Property Taxes	\$7,284,793	\$7,494,500	\$7,494,500	\$7,537,645
Licenses/Permits	419,507	341,600	341,600	379,428
Federal Grants	0	0	0	27,000
State Revenues/Grants	4,735,800	4,777,613	4,777,613	4,632,060
Charges for Services	1,946,279	1,925,818	1,895,068	1,765,541
Interest Earnings	175,843	90,000	90,000	307,098
Admin Charges/Other	2,836,713	2,875,960	2,953,403	2,710,073
TOTAL REVENUES	\$17,398,935	\$17,505,491	\$17,552,184	\$17,358,845
<u>EXPENDITURES:</u>				
General Government	\$2,572,988	\$2,806,859	\$2,873,859	\$2,759,991
Public Safety	6,612,688	6,824,255	6,824,255	6,741,898
Public Works	2,805,592	2,962,083	2,715,515	2,637,551
Recreation/Library	668,385	642,551	184,337	174,886
Grant Expenditures	0	0	0	27,000
Non-departmental (see below)	4,228,582	4,184,840	4,661,290	4,156,209
TOTAL EXPENDITURES	\$16,888,235	\$17,420,588	\$17,259,256	\$16,497,535
INCREASE (DECREASE) IN FUND BALANCE	\$510,700	\$84,903	\$292,928	\$861,310

As shown, during FY07 the actual General Fund revenues were \$17,358,845 and were \$861,310 over expenditures of \$16,497,535.

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

General Fund Budgetary Highlights – (Continued)

The original FY07 budget projected revenues at \$17,505,491 and expenditures at \$17,420,588. The original budget projected a use of fund balance of \$84,903.

The FY 07 budget was closely monitored throughout the year. Extensive reviews and budget amendments were performed after each quarter. During the quarterly budget reviews, it was determined that certain revenue line items would exceed the original projections. The budget was amended to increase the projected revenues by \$46,693, from \$17,505,491 to \$17,552,184. The increase in budgeted revenues was mainly for administrative charges/other.

Also during these reviews, it became apparent that certain expenditures would vary from original projections. The budget for expenditures was decreased by \$161,332 from \$17,420,588 to \$17,259,256.

Capital Asset and Debt Administration

As shown in the statement of net assets (see page 10) and detailed in Note 5, at the end of fiscal year 2007 the City (excluding component units) had \$49,824,406 (net of depreciation) invested in capital assets. These assets include land and buildings, police and fire vehicles and equipment, the City fleet, sidewalks, playgrounds, water and sewer lines, CSO basin and the like. The debt related to the acquisition and construction of these assets at June 30, 2007 was \$27,427,361 with \$2,910,102 of this debt due to be paid within the next year. A detailed listing of all City debt can be found in Note 7.

During the year, the long-term debt of the City increased by \$5,972,681. This was due primarily to the issuance of \$5,000,000 unlimited tax general obligation local street bonds, and \$3,200,000 unlimited tax general obligation bonds in the water and sewer funds.

In November 2002, the residents of the City of Inkster, Michigan overwhelmingly voted for an additional tax levy for debt service on \$15,000,000 in bonds to be issued in three series over the next 10 years for financing street improvements. The first series of bonds in the amount of \$5,000,000 were issued in March 2003. An assessment of the condition of all local streets within the City was used to prioritize the streets to be resurfaced. The improvement program began in April 2003. There were no debt issues for local or major streets in FY 2004 or FY 2005. The second series of bonds in the amount of \$5,000,000 was issued in FY 2006; the third series of bonds in the amount of \$5,000,000 was issued in FY07. The local street improvements will continue over the next 10 years.

Economic Factors and Next Years Budget

The FY 08 budgeted revenues project a continued decrease in state shared revenues and a small increase in property taxes at the inflation rate.

The goal of the 2008 budget is to continue to keep expenditures in line with the City's limited resources without the use of fund balance.

Due to the tight budget situation that the City faces, all operating budgets are being reviewed and adjusted on a bi-weekly basis in fiscal year 2008 to insure fiscal integrity of each operation.

**CITY OF INKSTER, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

CITY OF INKSTER, MICHIGAN
STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and Investments (Note 3)	\$4,912,858	\$2,051,491	\$6,964,349	\$2,225,020
Receivables - Net:				
Customers	0	3,668,761	3,668,761	0
Taxes Receivables	16,590	0	16,590	0
Long-Term Receivable from TIFA (Note 4)	1,088,297	0	1,088,297	0
Other	213,126	0	213,126	7,335
Internal Balances (Note 6)	(945,864)	945,864	0	0
Due from Primary Government	0	0	0	552,077
Due from Component Units	2,686	0	2,686	0
Due from Other Governmental Units	4,096,829	392,227	4,489,056	0
Inventories	11,501	140,745	152,246	0
Deferred Bond Issuance Costs	0	215,534	215,534	0
Restricted Assets (Note 8)	4,984,431	1,469,383	6,453,814	0
Prepaid Pension	96,937	0	96,937	0
Investment in Joint Venture-(Note 11)	193,830	0	193,830	0
Capital Assets - Net (Note 5)	20,340,901	29,483,505	49,824,406	0
Total Assets	35,012,122	38,367,510	73,379,632	2,784,432
Liabilities:				
Accounts Payable	1,641,770	1,449,032	3,090,802	981,922
Liabilities to be Paid from Restricted Assets:				
Due to Primary Government	0	0	0	2,686
Accrued and Other Liabilities	600,445	232,394	832,839	0
Due to Component Units	552,077	0	552,077	0
Deferred Revenue (Note 4)	86,382	0	86,382	0
Debt - Due within One Year (Note 7)	1,919,374	990,728	2,910,102	271,250
Other Noncurrent Liabilities - Due Within One Year	728,637	0	728,637	0
Noncurrent Liabilities:				
Estimated Worker's Compensation and Other Claims	1,972,534	0	1,972,534	0
Accrued Employee Benefits	983,185	0	983,185	0
Estimated Property Tax Chargebacks	206,525	0	206,525	0
Debt - Due in More Than One Year (Note 7)	14,100,437	10,416,822	24,517,259	7,617,047
Total Liabilities	22,791,366	13,088,976	35,880,342	8,872,905
Net Assets (Deficit):				
Invested in Capital Assets - Net of Related Debt	4,291,598	19,545,338	23,836,936	0
Restricted:				
Local and Major Streets	8,371,352	0	8,371,352	0
Drug Forfeiture	1,543	0	1,543	0
Capital Projects	92,217	0	92,217	0
Parks & Recreation	159,625	0	159,625	0
Environmental Protection Agency (Note 8)	0	118,118	118,118	0
Brownfield Authority Project	0	0	0	(2,893,242)
Unrestricted (Deficit)	(695,579)	5,615,078	4,919,499	(3,195,231)
Total Net Assets (Deficit)	\$12,220,756	\$25,278,534	\$37,499,290	(\$6,088,473)

The notes to financial statements are an integral part of this statement.

CITY OF INKSTER, MICHIGAN
STATEMENT OF ACTIVITIES
JUNE 30, 2007

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs	Expenses			
Primary Government:				
Governmental Activities:				
General Government	\$3,534,042	\$3,478,177	\$466,048	\$0
Public Safety	8,673,127	0	690,526	0
Public Works	6,400,734	0	3,149,045	0
Recreation and Culture	1,544,578	45,097	0	0
Interest on Long-Term Debt	267,341	0	0	0
Total Government Activities	20,419,822	3,523,274	4,305,619	0
Business - Type Activities - Water and Sewer	7,704,489	7,787,017	0	0
Total Primary Government	28,124,311	11,310,291	4,305,619	\$0
Component Units:				
Beech Daly Tax Increment Finance Authority	1,972,234	0	0	\$251,500
Brownfield Authority	2,675,165	0	0	0
Downtown Development Authority	262,717	0	0	0
Total Component Units	\$4,910,116	\$0	\$0	\$251,500

The notes to financial statements are an integral part of this statement.

CITY OF INKSTER, MICHIGAN
STATEMENT OF ACTIVITIES
JUNE 30, 2007
(Continued)

Functions/Programs	Net (Expense) Revenue and Charges in Net Assets			
	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Primary Government:				
Governmental Activities:				
General Government	\$410,183	0	\$410,183	\$0
Public Safety	(7,982,601)	0	(7,982,601)	0
Public Works	(3,251,689)	0	(3,251,689)	0
Recreation and Culture	(1,499,481)	0	(1,499,481)	0
Interest on Long-Term Debt	(267,341)	0	(267,341)	0
Total Government Activities	(12,590,929)	0	(12,590,929)	0
Business - Type Activities - Water and Sewer	0	82,528	82,528	0
Total Primary Government	(12,590,929)	82,528	(12,508,401)	0
Component Units:				
Beech Daly Tax Increment Finance Authority	0	0	0	(1,720,734)
Brownfield Authority	0	0	0	(2,675,165)
Downtown Development Authority	0	0	0	(262,717)
Total Component Units	\$0	\$0	\$0	(\$4,658,616)
General Revenues:				
Property Taxes	\$8,196,433	\$1,142,356	\$9,338,789	\$918,470
State-Shared Revenues	4,420,369	0	4,420,369	0
Unrestricted Investment Earnings	528,202	137,932	666,134	124,273
Franchise Fees	244,527	0	244,527	0
Miscellaneous	37,103	0	37,103	0
Healthcare Reimbursements	299,375	0	299,375	0
Joint Venture Investment Income	351,637	0	351,637	0
Total General Revenues	14,077,646	1,280,288	15,357,934	1,042,743
Change in Net Assets	1,486,717	1,362,816	2,849,533	(3,615,873)
Net Assets (Deficit) - July 1, 2006	10,734,039	23,915,718	34,649,757	(2,472,600)
Net Assets (Deficit) - June 30, 2007	\$12,220,756	\$25,278,534	\$37,499,290	(\$6,088,473)

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	General Fund	Major Streets Fund	Local Streets Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash And Investments	\$1,005,975	\$1,804,389	\$1,306,356	\$374,342	\$4,491,062
Receivables - Net:					
Taxes Receivable	16,590	0	0	0	16,590
Long-Term Receivable From TIFA	0	1,088,297	0	0	1,088,297
Other	194,822	0	0	18,304	213,126
Restricted Assets (Note 8)	0	0	4,984,431	0	4,984,431
Due From Other Funds	0	0	260,611	11,810	272,421
Due From Component Unit	2,686	0	0	0	2,686
Due From Other Governments	3,244,999	186,676	79,392	585,762	4,096,829
Inventories	1,313	0	0	0	1,313
Total Assets	\$4,466,385	\$3,079,362	\$6,630,790	\$990,218	\$15,166,755
Liabilities And Fund Balances					
Liabilities					
Accounts Payable	\$1,298,518	\$100,838	\$68,854	\$105,737	\$1,573,947
Accrued And Other Liabilities	586,399	0	0	0	586,399
Due To Other Funds	1,135,150	12,150	0	70,985	1,218,285
Due to Component Units	0	0	0	552,077	552,077
Deferred Revenue	3,950	1,142,607	20,088	248,034	1,414,679
Total Liabilities	3,024,017	1,255,595	88,942	976,833	5,345,387
Fund Balances					
Reserved:					
Unspent Bond Proceeds in the Local Streets Fund	0	0	4,915,577	0	4,915,577
Inventories	1,313	0	0	0	1,313
Unreserved, reported in General Fund --					
Designated For Property Tax Chargebacks	308,525	0	0	0	308,525
Unreserved, Undesignated, Reported In:					
General Fund	1,132,530	0	0	0	1,132,530
Special Revenue Funds	0	1,823,767	1,626,271	(78,832)	3,371,206
Capital Projects Funds	0	0	0	92,217	92,217
Total Fund Balances	1,442,368	1,823,767	6,541,848	13,385	9,821,368
Total Liabilities And Fund Balances	\$4,466,385	\$3,079,362	\$6,630,790	\$990,218	

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and are not reported in the funds.	19,305,579
Accounts Receivable from the Tax Increment Finance Authority will be collected over several years and are not available to pay for current year expenditures.	1,088,297
Part of Accounts Receivable(Grants) will be collected beyond 60 days after the end of the Fiscal year and would not be available to pay for the current year's expenditure	240,000
General Employee pension plan prepayment not reported in the funds	96,937
Investment in Joint Venture not reported in the funds.	193,830
Long-Term Liabilities are not due and payable in the current period and are not reported in the funds.	(19,450,883)
Internal Service Funds are included as part of governmental activities.	925,628
Net Assets of Governmental Activities	\$12,220,756

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	General Fund	Major Streets Fund	Local Streets Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenue					
Property Taxes	\$7,537,645	\$0	\$1,160,501	\$658,788	\$9,356,934
Licenses and Permits	379,428	0	0	0	379,428
Federal Grants	27,000	0	0	913,105	940,105
State Revenues and Grants	4,632,060	1,211,434	503,669	0	6,347,163
Charges for Services	1,765,541	0	0	0	1,765,541
Interest	307,098	77,916	116,012	27,176	528,202
Administrative Charges and Other Revenue	2,710,073	0	0	317,362	3,027,435
Total Revenue	17,358,845	1,289,350	1,780,182	1,916,431	22,344,808
Expenditures					
Current:					
General Government	2,759,991	0	0	0	2,759,991
Public Safety	6,741,898	0	0	64,304	6,806,202
Highways, Streets, and Public Works	2,637,551	1,171,400	4,067,718	0	7,876,669
Grant Expenditures	27,000	0	0	1,153,105	1,180,105
Recreation and Culture	174,886	0	0	1,066,493	1,241,379
Non-Departmental	4,156,209	0	0	0	4,156,209
Debt Service	0	274,689	1,173,902	0	1,448,591
Total Expenditures	16,497,535	1,446,089	5,241,620	2,283,902	25,469,146
Excess of Revenue Over (Under) Expenditures	861,310	(156,739)	(3,461,438)	(367,471)	(3,124,338)
Other Financing Sources/(Expenses)					
Operating Transfers In	0	155,864	0	564,500	720,364
Operating Transfers Out	(508,500)	0	0	(307,500)	(816,000)
Proceeds from Issuance of Bonds	0	0	5,000,000	0	5,000,000
Total other financing sources	(508,500)	155,864	5,000,000	257,000	4,904,364
Net Change In Fund Balances	352,810	(875)	1,538,562	(110,471)	1,780,026
Fund Balances - July 1, 2006	1,089,558	1,824,642	5,003,286	123,856	8,041,342
Fund Balances - June 30, 2007	\$1,442,368	\$1,823,767	\$6,541,848	\$13,385	\$9,821,368

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net Change In Fund Balances - Total Governmental Funds	\$1,780,026
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Governmental Funds Report Capital Outlays As Expenditures; In The Statement Of Activities, These Costs Are Allocated Over Their Estimated Useful Lives As Depreciation:	
Capital Outlay	3,617,668
Depreciation Expenses	(1,165,204)
Repayment Of Bond Principal Is An Expenditure In The Governmental Funds, But Not In The Statement Of Activities (Where It Reduces Long-Term Debt)	1,290,000
Decrease In Estimated Long-Term General Liability Claims	383,447
Decrease In Long-Term Accrued Employee Sick And Vacation Pay	88,152
Decrease In Property Tax Chargeback Accrual	25,857
Increase In Pre-paid pension expense	79,050
Reimbursement From The TIFA For Debt Principal Payments	(108,750)
Internal Service Funds Are Also Included As Governmental Activities	(75,166)
Decrease in Joint Venture Liability	351,637
Deferred Revenue(Net Increase)	220,000
Bond proceeds reported as long-term debt rather than other financing resources	<u>(5,000,000)</u>
Change In Net Assets Of Governmental Activities	<u><u>\$1,486,717</u></u>

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current Assets:		
Cash and Cash Equivalents	\$2,051,491	\$421,796
Receivables - Net	3,668,761	0
Due from Other Governmental Units	392,227	0
Due from other funds	945,864	0
Inventories	140,745	10,188
Deferred Bond Issuance Costs	215,534	0
Total Current Assets	7,414,622	431,984
Non-current Assets:		
Restricted Assets	1,469,383	0
Capital Assets	29,483,505	1,035,323
Total Non-current Assets	30,952,888	1,035,323
Total Assets	38,367,510	1,467,307
Liabilities		
Current Liabilities:		
Accounts Payable	1,449,032	67,823
Accrued and Other Liabilities	208,154	14,046
Bonds and Deposits	24,240	0
Current Portion of Long-Term Debt	946,085	214,375
Total Current Liabilities	2,627,511	296,244
Non-Current Liabilities - Long-Term Debt - Net of Current Portion	10,461,465	245,435
Total Liabilities	13,088,976	541,679
Net Assets		
Investment in Capital Assets - Net of Related Debt	19,545,338	575,513
Restricted	118,118	0
Unrestricted	5,615,078	350,115
Total Net Assets	\$25,278,534	\$925,628

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007**

	Enterprise - Water and Sewer Fund	Internal Service Funds - Garage Fund
Operating Revenue		
Water and Sewer User Charges	\$5,972,853	\$0
Federal Grants	3,000	0
Other Charges for Services	842,258	1,385,286
Total Operating Revenue	6,818,111	1,385,286
Operating Expenses		
Cost of Water	1,073,725	0
Cost of Sewage Disposal	2,027,123	0
Wages and Fringes	530,498	251,702
Operating Supplies	139,897	272,566
Equipment Rental	554,279	0
Contractual Services	764,324	262,991
Repairs and Maintenance	661,437	206,477
Insurance, Claims, and Other	239,171	119,368
Depreciation	881,472	341,280
Bad Debts	35,288	0
Non-Departmental	279,309	0
Total Operating Expenses	7,186,523	1,454,384
Operating Income (Loss)	(368,412)	(69,098)
Non-Operating Revenue (Expense)		
Investment Income	137,932	13,546
Interest Expense	(517,966)	(19,614)
Property Taxes	1,142,356	0
State Grant (Note 14)	968,906	0
Total Non-Operating Revenue (Expense)	1,731,228	(6,068)
Income (Loss)	1,362,816	(75,166)
Change in Net Assets	1,362,816	(75,166)
Net Assets - July 1, 2006	23,915,718	1,000,794
Net Assets - June 30, 2007	\$25,278,534	\$925,628

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007**

	Enterprise - Water and Sewer Fund	Internal Service Funds - Garage Fund
Cash Flows from Operating Activities		
Receipts from Customers	\$5,545,632	\$0
Receipts from Grants	579,679	0
Payments to Suppliers	(6,090,589)	(833,081)
Payments to Employees	(529,794)	(248,102)
Internal Activity - Payments from (to) Other Funds	0	1,385,286
	<u> </u>	<u> </u>
Net Cash Provided by Operating Activities	(495,072)	304,103
Cash Flows from Capital and Related Financing Activities		
Proceeds from Property Tax Levy Restricted for Debt Service	1,142,356	0
Purchase of Capital Assets	(1,490,787)	(211,462)
Principal and Interest Paid on Capital Debt	(1,417,931)	(56,969)
New Bond Issue	3,200,000	0
State Grant	968,906	0
	<u> </u>	<u> </u>
Net Cash Used in Capital and Related Financing Activities	2,402,544	(268,431)
Cash Flows from Investing Activities - Interest on Investments	<u>137,932</u>	<u>13,546</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,045,404	49,218
Cash and Cash Equivalents - July 1, 2006	<u>6,087</u>	<u>372,578</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$2,051,491</u></u>	<u><u>\$421,796</u></u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating Income (Loss)	(\$368,412)	(\$69,098)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:		
Depreciation and Amortization	881,472	341,280
Changes in Assets and Liabilities:		
Receivables	(697,522)	0
Inventories	48,248	0
Deferred Bond Issuance Costs	30,791	0
Accounts Payable and Accrued Liabilities	840,697	31,921
Restricted Assets	(129,859)	0
Due to Other Funds	(1,100,487)	0
	<u> </u>	<u> </u>
Net Cash Provided by Operating Activities	<u><u>(\$495,072)</u></u>	<u><u>\$304,103</u></u>

Non-Cash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, the following non-cash activities occurred:

The Enterprise Fund is involved in the Rouge River National Wet Weather Demonstration Project. This activity was administered by Wayne County and is recorded in the restricted assets held at Wayne County as described in Note 8. Interest of \$ 74,733 was earned on monies held at the County.

The Enterprise Fund received \$234 in interest earnings as described in Note 8 on the monies held at the County for the North Huron Valley/Rouge Valley Sewer System improvements.

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Pension and Other Employee Benefit Trust Funds	Agency Fund - Escrow Fund
Assets		
Cash and Cash Equivalents	\$210	\$622,424
Investments:		
Corporate Bonds	1,254,031	0
U.S. Government Securities	326,264	0
U.S. Government Agency Securities	7,785,798	0
Common and Preferred Stock	19,033,350	0
Pension Guarantee Contract Pooled Fund	8,094,952	0
Bank Investment Pools	924,400	0
Receivables - Accrued Interest and Other	179,741	0
	<u>\$37,598,746</u>	<u>\$622,424</u>
Total Assets		
	<u>\$37,598,746</u>	<u>\$622,424</u>
Liabilities		
Bonds and Deposits	\$0	\$622,424
	<u>0</u>	<u>\$622,424</u>
Total Liabilities		
	<u>0</u>	<u>\$622,424</u>
Net Assets - Held in Trust for Employee Pension Benefits	<u>\$37,598,746</u>	

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007**

	<u>Pension and Other Employee Benefit Trust Funds</u>
Additions	
Investment Income:	
Interest and Dividends	\$1,287,678
Net Increase in Fair Value of Investments	<u>2,416,450</u>
Net Investment Income	3,704,128
Contributions:	
Employer	718,572
Employee	<u>411,064</u>
Total Contributions	<u>1,129,636</u>
Total Additions	4,833,764
Deductions	
Benefit Payments	2,107,675
Refunds of Contributions	51,761
Administrative Expenses	<u>313,257</u>
Total Deductions	<u>2,472,693</u>
Net Increase	2,361,071
Net Assets - Held in Trust for Pension and Other Employee Benefits	
July 1, 2006	<u>35,237,675</u>
June 30, 2007	<u><u>\$37,598,746</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF INKSTER, MICHIGAN
COMPONENT UNITS
STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2007

	Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Total
Assets					
Cash and investments	\$1,369	\$431,307	\$1,210,406	\$581,938	\$2,225,020
Due from primary government	0	0	552,077	0	552,077
Accounts receivable	0	7,335	0	0	7,335
Total assets	1,369	438,642	1,762,483	581,938	2,784,432
Liabilities					
Accounts payable	0	323,705	500,725	157,492	981,922
Due to primary government	0	0	0	2,686	2,686
Liabilities to be paid from restricted assets:					
Long-term debt	0	3,733,297	4,155,000	0	7,888,297
Total liabilities	0	4,057,002	4,655,725	160,178	8,872,905
Net Assets (Deficit)					
Restricted for Brownfield Project	0	0	(2,893,242)	0	(2,893,242)
Unrestricted (deficit)	1,369	(3,618,360)	0	421,760	(3,195,231)
Total net assets (deficit)	\$1,369	(\$3,618,360)	(\$2,893,242)	\$421,760	(\$6,088,473)

The notes to financial statements are an integral part of this statement.

CITY OF INKSTER, MICHIGAN
COMPONENT UNITS
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Total
Economic Development Corporation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Beech Daly Tax Increment Finance Authority	1,972,234	0	0	251,500	(1,720,734)	0	0	(1,720,734)
Brownfield Tax Increment Finance Authority	2,675,165	0	0	0	0	(2,675,165)	0	(2,675,165)
Downtown Development Authority	262,717	0	0	0	0	0	(262,717)	(262,717)
Total governmental activities	\$4,910,116	\$0	\$0	\$251,500	(\$1,720,734)	(\$2,675,165)	(\$262,717)	(\$4,658,616)
General revenues:								
Property taxes				\$0	\$710,688	\$0	\$207,782	\$918,470
Interest				81	52,092	47,759	24,341	124,273
Total general revenues				81	762,780	47,759	232,123	1,042,743
Change in Net Assets (Deficit)				81	(957,954)	(2,627,406)	(30,594)	(3,615,873)
Net Assets (Deficit) - July 1, 2006				1,288	(2,660,406)	(265,836)	452,354	(2,472,600)
Net Assets (Deficit) - June 30, 2007				\$1,369	(\$3,618,360)	(\$2,893,242)	\$421,760	(\$6,088,473)

The notes to financial statements are an integral part of this statement.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Inkster, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate for the City (see discussion below for description).

The Inkster Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's buildings.

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation's governing body, which consists of 11 individuals, is selected by the City Council.
- b. The Beech Daly Tax Increment Finance Authority (TIFA) was created to correct and prevent deterioration in the TIFA district, encourage historical preservation, and to promote economic growth within the district. The TIFA's governing body, which consists of 13 individuals, is selected by the City Council.
- c. The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority's governing body, which consists of nine individuals, is selected by the City Council.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- d. The Brownfield Redevelopment Authority was created to revert tax-reverted and condemned properties as well as other properties into new residential housing. The Brownfield Redevelopment Authority's governing body, which consists of not less than five individual, is selected by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed for these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.
- The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

- The Water and Sewer Fund is the City's only proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City's only Internal Service Fund is the Garage Fund, which is used to account for the City's vehicles and other machinery.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Special Revenue Funds account for the revenues and expenditures related to drug enforcement and traffic immobilization activities and Community Development Block Grant and other miscellaneous grant activity.
- Capital Projects Funds accounts for the development and improvement of capital facilities and sidewalks, other than those financed by the operations of the proprietary fund.
- Pension Trust Funds account for the activities of the police and fire employees' retirement system and general government employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.
- The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

The proprietary fund distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are assessed on the taxable valuation of property as of the preceding December 31. The related property taxes are billed on July 1 and December 1 of the following year. Taxes are considered delinquent on March 1 and September 1 of the following year, at which time penalties and interest are assessed. The City's 2006 tax is levied and collectible on July 1 and December 1, 2006, and is recognized as revenue in the year ended June 30, 2007 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled \$340,410,778 (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 17.3827 mills for operating purposes, 2.6073 mills for rubbish collection services, and 7.8064 mills for debt service. This resulted in approximately \$5.5 million for operations, approximately \$888,000 for rubbish collection services, and approximately \$2.7 million for debt service. These amounts are recognized in the General Fund, Enterprise Fund and Local Streets (Special Revenue) Fund financial statements as tax revenue. A new Parks and Recreation fund was established during the year with a tax millage of 1.000 mills resulting in a tax revenue of approximately \$680,000.

Assets, Liabilities, and Net Assets or Equity

Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments – Investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. See Note 3 for additional investment information.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Receivables and Payables (Continued) – Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown net of allowance for uncollectible amounts.

Allowance for Doubtful Accounts – All water and sewer and property tax receivables are shown net of allowances for doubtful accounts. The allowance for uncollectible water billings in the Utility Fund is \$430,000 at June 30, 2007. The allowance for uncollectible taxes in the General Fund is approximately \$73,000 at June 30, 2007.

Inventories – Inventories are valued at cost, on a first-in first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets – The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of the City's water and sewer system. The unspent bond proceeds in the Local Streets Fund are required to be set aside for local street construction. These amounts have been classified as restricted assets

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 30 years
Water and sewer systems	50 to 75 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 10 years
Office furnishings	7 to 10 years
Other tools and equipment	7 to 10 years

In conjunction with the Carver Homes project (see Note 5), the City and the Brownfield Redevelopment Authority have agreed to acquire, improve, and then sell to the developer certain property in the City. Consistent with the lower-of-cost or market valuation principle, the project expenditures incurred through June 30, 2007, which are reported by the Brownfield Redevelopment Authority, have been expensed since it anticipated that the future costs to acquire the property will exceed the future sales price to the developer.

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Property Tax Chargeback – The property tax chargebacks represent real property tax collected from the County Tax Revolving Fund that is estimated to be uncollectible when the related parcels are later sold in land sales. The balance at June 30, 2007 consists of those amounts estimated to be charged back to the City in the years after June 30, 2007.

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount.

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-term Obligations (Continued) – Recorded bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize recorded bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Generally, premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance cost are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted the United State of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2) **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Construction Code Fees – The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2006		(\$109,551)
Current year building permit revenue		341,011
Related expenses:		
Direct costs	\$314,763	
Estimated indirect costs	<u>113,163</u>	
Total construction code expenses		<u>(427,926)</u>
Cumulative shortfall at June 30, 2007		<u>(\$196,466)</u>

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Fund Deficit – The Beech Daly Tax Increment Finance Authority reported a negative balance of unrestricted net assets at June 30, 2007. However, the modified accrual unreserved fund balance of its General Fund is \$114,937. Therefore, this is not considered a fund deficit. The Brownfield Tax Increment Finance Authority reported a negative balance of unrestricted net assets at June 30, 2007. See Note 5 for further discussion of the Brownfield Carver Homes Project. Also, the grants fund (non-major special revenue fund) has a fund deficit of \$240,000. This is due to grant funds not meeting the availability criteria since they were not received within 60 days of fiscal year-end.

3) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 (Public Act of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of local unit funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs for the City's funds. The City's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. At year end, the City had \$15,302,068 of bank deposits (certificates of deposit, checking, and saving accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

3) DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At the end of the year, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government or agency	\$8,112,062	5.30 years
Corporate bonds	\$1,254,031	2.06 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Organization</u>
Investment pools	\$9,019,352	None	S&P
Corporate bonds	660,000	AAA	S&P
	516,000	AA	S&P
	78,031	A	S&P
U.S. agencies not explicitly guaranteed by the U.S. government	7,995,000	AAA	S&P
	117,062	AA	S&P

Component Units

The cash and cash equivalents of the City component units consist of interests in the City's shared bank accounts totaling \$2,225,020 at June 30, 2007. The portion of these balances covered by federal depository insurance is not known since the accounts are shared with the City.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

4) RECEIVABLES AND RELATED DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Receivable from component unit - TIFA	\$1,088,297	\$0
Grants received prior to meeting all eligibility requirements	<u>240,000</u>	<u>86,382</u>
Total	<u><u>\$1,328,297</u></u>	<u><u>\$86,382</u></u>

*The City issued bonds on behalf of the TIFA, which are discussed in detail in Note 7. The TIFA has committed to repay 75 percent of the bonds' debt service, including past payments made by the City, which were in excess of the TIFA's ability to repay at that time. The City's Major Streets Fund has recorded this receivable at an amount equal to the 75 percent of the bonds principal payments plus \$38,297 for past payments made by the City. The interest portion of the bond payments will be recorded when received. The TIFA's current and future commitment to the repayment of these bonds is limited to its ability to capture sufficient revenue.

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

5) CAPITAL ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions 2006-07	Adjustments 2006-07	Disposals 2007-07	Balance June 30, 2007
<u>Governmental Activities:</u>					
Capital assets not being depreciated:					
Land	\$307,195	\$0	\$0	\$0	\$307,195
Capital assets being depreciated:					
Land improvements	284,737	0	0	0	284,737
Roads and sidewalks	15,227,283	3,426,796	0	0	18,654,079
Buildings and improvements	7,546,504	34,523	0	0	7,581,027
Vehicles	4,584,336	211,462	0	0	4,795,798
Furniture and equipment	4,208,755	156,350	0	0	4,365,105
Subtotal	31,851,615	3,829,131	0	0	35,680,746
Accumulated depreciation:					
Land improvements	42,711	14,237	0	0	56,948
Roads and sidewalk	3,624,764	629,050	0	0	4,253,814
Buildings and improvements	4,385,048	161,884	0	0	4,546,932
Vehicles	3,398,159	353,789	0	0	3,751,948
Furniture and equipment	2,689,874	347,524	0	0	3,037,398
Subtotal	14,140,556	1,506,484	0	0	15,647,040
Net capital assets being depreciated	17,711,059	2,322,647	0	0	20,033,706
Net capital assets	<u>\$18,018,254</u>	<u>\$2,322,647</u>	<u>\$0</u>	<u>\$0</u>	<u>\$20,340,901</u>

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

5) CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u> <u>2006-07</u>	<u>Deletions</u> <u>2006-07</u>	<u>Balance</u> <u>June 30, 2007</u>
Business -Type Activities				
Capital assets not being depreciated:				
Land	\$2,745	\$0	\$0	\$2,745
Construction in progress	568,817	1,416,311	(568,817)	1,416,311
Subtotal	571,562	1,416,311	(568,817)	1,419,056
Capital assets being depreciated:				
Water and sewer dist. system	37,449,961	643,293	0	38,093,254
Buildings and building improvements	66,444	0	0	66,444
Office furnishings	4,348	0	0	4,348
Other tools and equipment	22,676	0	0	22,676
Subtotal	37,543,429	643,293	0	38,186,722
Accumulated depreciation:				
Water and sewer dist. system	9,147,333	881,472	0	10,028,805
Buildings and building improvements	66,444	0	0	66,444
Office furnishings	4,348	0	0	4,348
Other tools and equipment	22,676	0	0	22,676
Subtotal	9,240,801	881,472	0	10,122,273
Net capital assets being depreciated	28,302,628	(238,179)	0	28,064,449
Net capital assets	<u>\$28,874,190</u>	<u>\$1,178,132</u>	<u>(\$568,817)</u>	<u>\$29,483,505</u>

Depreciation expense was changed to programs of the primary government as follows:

Governmental Activities	
General government	\$131,850
Public Safety	253,953
Public Works	43,130
Culture and recreation	107,220
Road infrastructure	629,051
Internal service funds depreciation charged to various functions based on their usage of the assets	341,280
Total governmental activities	<u>\$1,506,484</u>
Business-type activities - Water and sewer	<u>\$881,472</u>

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

5) CAPITAL ASSETS (Continued)

Construction Commitments – The City has active road construction projects at year-end related to the 2003 and 2007 local road bond issues. At year-end, the City's construction commitments approximated \$4,900,000.

The City of Inkster, Michigan, in conjunction with the City of Inkster Brownfield Redevelopment Authority, has entered into an agreement with a development company and its affiliate to redevelop the Carver Homes area of the City. Under the agreement, the City will acquire, improve, and then sell the project real estate to the developer. The City issued bonds for \$2,000,000 during the fiscal year 2003/04 and transferred the proceeds to the Brownfield Redevelopment Authority to be used for preliminary engineering and administrative costs as well as property acquisition and demolition expenditures. The City has reprogrammed future grant funds to pay for the majority of the debt service costs of this issue. The City is also relying on current and future grant monies to fund the related relocation costs.

It is intended that the Carver Homes area redevelopment project will be amended to split the project into three phases (PH1A, PH1B and PH2) subject to the developer meeting two conditions before construction. The first condition requires the developer to provide the City a notice to proceed with construction on one hundred and eight (108) homes in the development area. The second condition requires the developer to provide evidence to the City that the developer can guarantee payment of a future \$4,155,000 City debt issue for the infrastructure cost of this development. The City has received the notice to proceed and the guarantee.

Phase 1A requires that the developer build seventeen (17) homes on Annapolis Avenue. The developer will pay for the infrastructure for the seventeen (17) homes. In exchange, the City will sell the land where the seventeen (17) homes will be located for one dollar (\$1.00). Phase 1B requires that the developer build ninety-one (91) more homes in the development area. This work began in the fiscal year 2006/07.

From the proceeds the City will reimburse the developer for infrastructure costs on the first seventeen (17) homes built and pay for the cost of the infrastructure for the remaining ninety-one (91) homes. Once the debt is sold for the entire project and the developer is reimbursed for infrastructure costs in Phase 1A, the developer will pay \$2,000 per lot to the City for all lots developed in the development area. The bond issue was closed on November 8, 2006. It is intended that debt service costs from the \$4,155,000 debt issue will be paid from tax captures from the City Brownfield development area.

Commitment – During the year ended June 30, 1992, the City negotiated an agreement with the Michigan Department of Natural Resources to ensure compliance with the Clean Water Act. This agreement requires the construction of retention basins and/or the construction of separate sanitary and storm sewer lines to be completed to two phases. Phase one of the project was substantially complete at June 30, 2003 and phase two Western Out Falls design work was started in 2006. The construction for Western Out Falls and design and construction for Eastern Out Falls is expected to be completed by 2013. The estimated cost of phase two is not anticipated to exceed \$54,000,000.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

6) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

<u>Fund Due to</u>	<u>Fund Due from</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$70,985
Water & Sewer	General Fund	945,864
Nonmajor Governmental Funds	General Fund	11,810
Local Streets	General Fund	248,460
Local Streets	Major Street	12,151

TRANSFERS

<u>From</u>	<u>To</u>	<u>Amount</u>
General Fund	Parks & Recreation	\$508,500
Capital Improvement Fund	TIFA	251,500
Capital Improvement Fund	Drug Forfeiture Fund	56,000

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

7) LONG-TERM DEBT

The following is a summary of the primary government debt of the City outstanding as of June 30, 2007:

	Interest Rate Ranges	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental Activities						
General obligation bonds						
(for road and other construction):						
Act 175 Motor Vehicle Bond, Series 1991						
Amount of Issue - \$60,000	6.30% -					
Maturing through 11/2006	6.60%	\$65,000	\$0	(\$65,000)	\$0	\$0
Act 175 Motor Vehicle Bond, 2001 Series						
Refunding bonds						
Amount of Issues - \$1,780,000	2.00% -					
Maturing through 8/2014	4.625%	1,545,000	0	(145,000)	1,400,000	155,000
General Obligation, Unlimited Tax 2003 Series						
Local road bonds						
Amount of Issues - \$5,000,000	2.5% -					
Maturing through 3/2013	3.625%	3,610,000	0	(470,000)	3,140,000	480,000
2003 Capital improvement Bonds						
Amount of Issues - \$2,000,000	2.5% -					
Maturing through 11/2013	5.125%	1,630,000	0	(175,000)	1,455,000	180,000
Unlimited Tax General Obligation						
Local street bonds, series 2006						
Amount of Issue - \$5,000,000	4.0% -					
Maturing through 3/1/2016	4.250%	5,000,000	0	(435,000)	4,565,000	455,000
Local road bonds, Series 2007 B						
Amount of Issue - \$5,000,000						
Maturing through 3/1/2017	4.11%	0	5,000,000	0	5,000,000	435,000
Total bond obligations		11,850,000	5,000,000	(1,290,000)	15,560,000	1,705,000
Other long-term obligations						
Sweeper purchase						
Amount of Issue - \$147,500						
Maturing through 6/30/2008	4.08%	88,402	0	(28,282)	60,120	29,452
Bucket Truck purchase						
Amount of Issue - \$94,500						
Maturing through 7/15/2005	3.94%	55,500	0	(17,781)	37,719	18,491
Fire Truck & Ambulance purchase						
Amount of Issue - \$558,852						
Maturing through 7/2008	3.8%	353,263	0	(113,290)	239,973	117,697
Jeep & Ford 500						
Amount of Issue - \$42,250						
Maturing through 9/2008	5.8%	0	42,250	(14,884)	27,366	13,297
4 Patrol Cars						
Amount of Issue - \$82,260						
Maturing through 12/2008	5.6%	0	82,260	(28,927)	53,333	25,940
2 Ford Rangers & 1 Ford 150						
Amount of Issue - \$53,110						
Maturing through 1/2011	5.6%	0	53,110	(11,810)	41,300	9,497
Total other long-term obligations		497,165	177,620	(214,974)	459,811	214,374
Total Governmental Activities		\$12,347,165	\$5,177,620	(\$1,504,974)	\$16,019,811	\$1,919,374

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

7) LONG-TERM DEBT (Continued)

	Interest Rate Ranges	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Business-type Activities						
Wayne County Contracts (for construction of system improvements):						
Wayne County Sewage Disposal System, 1994						
North Huron Valley System						
Amount of Issue - \$556,516	5.6% -					
Maturing through 5/2009 - Net of \$6,869 of deferred charges at June 30, 2006	6.00%	\$147,190	\$0	(\$46,174)	\$101,016	\$50,728
Wayne County Sewage Disposal System, 1999						
CSO Basin Series B Refunding Bonds						
Amount of Issue - \$2,730,000	3.75% -					
Maturing through 11/2015 - Net of \$86,539 of deferred charges at June 30, 2006	4.80%	2,236,099	0	(177,637)	2,058,462	200,000
Wayne County Sewage Disposal System, 1999						
CSO Basin Series C Refunding Bonds						
Amount of Issue - \$6,390,000	3.75% -					
Maturing through 11/2015 - Net of \$201,936 of deferred charges at June 30, 2006	4.80%	5,189,226	0	(436,154)	4,753,072	490,000
1994 State Revolving Fund Loan						
Amount of Issue - \$2,590,000						
Maturing through 4/2016	2.00%	1,425,000	0	(130,000)	1,295,000	135,000
Utility Systems Revenue Bonds (for system improvements) - 2003 Revenue Refunding Bonds						
Amount of Issue - \$435,000	2.00% -					
Maturing through 8/2006	2.30%	110,000	0	(110,000)	0	0
CSO Bonds- General Obligation (Unlimited Tax)						
Bonds- Series 2007						
Amount of Issue - \$3,200,000	4.00% -					
Maturing through 3/1/2026	5.25%	0	3,200,000	0	3,200,000	115,000
Total business-type activities		\$9,107,515	\$3,200,000	(\$899,965)	\$11,407,550	\$990,728

** A portion of these bonds was defeased during the year ended June 30, 2003.

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

7) LONG-TERM DEBT (Continued)

	Interest Rate Ranges	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Component Units						
Beech Daly Tax Increment Finance Authority - Road Improvement						
2001 Series Bonds*						
Amount of Issue - \$1,655,000	2.00%					
Maturing through 11/2019	5.00%	\$1,485,000	\$0	(\$110,000)	\$1,375,000	\$110,000
Beech Daly Tax Increment Finance Authority - City Facilities Project						
Series 2006						
Amount of Issue - \$1,300,000	4.6% -					
Maturing through 11/1/2025	5.0%	1,300,000	0	(30,000)	1,270,000	45,000
Due to the City of Inkster**						
75% of City of Inkster 2001 Series Act 175 Motor Vehicle Highway Refunding Bonds						
Original amount of obligation - \$1,335,000 (75% of \$1,780,000)	2.00% -					
Maturing through 8/2014	4.625%	1,158,750	0	(108,750)	1,050,000	116,250
Brownfield Redevelopment Authority-Tax Incremental Bonds- Series 2006						
Amount of Issue- \$ 4,155,000	6.2%-					
Maturing through 11/01/2025	6.125%	0	4,155,000	0	4,155,000	0
Reimbursement obligation - Historical portion - Payable when funds are available		38,297	0	0	38,297	0
Total Component Units		\$3,982,047	\$4,155,000	(\$248,750)	\$7,888,297	\$271,250

Under certain circumstances, the issuance of future Enterprise fund bonds is restricted unless "net revenues" meets minimum bond requirements.

The City has pledged its full faith and credit for the bond obligation of the Beech Daly Tax Increment Finance Authority, a component unit.

The City anticipates that 75 percent of the debt service requirement for two of the Act 175 Motor Vehicle Highway bonds (with an outstanding balance of \$1,050,000 at June 30, 2007) will ultimately be provided by the Tax Increment Finance Authority (TIFA), a component unit. It is also anticipated that the TIFA will eventually repay the City \$38,297, representing the net unreimbursed installment payments made by the City through June 30, 2007 related to these obligations.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

7) LONG-TERM DEBT (Continued)

The TIFA's payment of the above described obligations is limited to the amount of TIFA revenue legally available and in excess of the amounts which are required to pay the debt service of the outstanding TIFA bonds, if any. Historically, annual TIFA revenue has, in varying amounts, exceeded the total annual debt service payments for the outstanding TIFA bonds.

Annual debt service requirements to maturity for the above governmental, business type, and component unit bonds and note obligations are as follows:

	Governmental Activities			Business-Type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$1,919,374	\$578,682	\$2,496,056	\$990,728	\$451,953	\$1,442,681	\$271,250	\$414,289	\$685,539
2009	1,983,660	556,164	2,539,824	982,513	434,578	1,417,091	291,250	402,944	694,194
2010	1,815,593	479,861	2,295,454	973,791	392,715	1,366,506	350,000	388,837	738,837
2011	1,876,184	408,705	2,284,889	958,791	352,435	1,311,226	307,500	374,086	681,586
2012	1,930,000	333,336	2,263,336	954,151	310,877	1,265,028	390,000	357,852	747,852
2013-2017	6,495,000	650,525	7,145,525	4,722,576	861,692	5,584,268	2,005,000	1,479,037	3,484,037
2018-2022	0	0	0	925,000	326,750	1,251,750	2,050,000	943,655	2,993,655
2023-2026	0	0	0	900,000	108,763	1,008,763	2,185,000	274,828	2,459,828
	<u>\$16,019,811</u>	<u>\$3,005,273</u>	<u>\$19,025,084</u>	<u>\$11,407,550</u>	<u>\$3,239,763</u>	<u>\$14,647,313</u>	<u>\$7,850,000</u>	<u>\$4,635,528</u>	<u>\$12,485,528</u>

Defeased Debt – In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2007, \$8,055,000 of bonds outstanding are considered defeased.

In prior years, the TIFA defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2007, \$1,280,000 of bonds outstanding are considered defeased.

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

8) RESTRICTED ASSETS

Governmental Activities – The \$4,984,431 of restricted assets at June 30, 2007 are unspent cash proceeds from the 2007 General Obligation Bonds restricted for local road construction.

Business – type Activities – Restricted assets at June 30, 2007 consist of assets held at Wayne County restricted for the following purposes:

City's portion of Rouge River National Wet Weather Demonstration Basin construction	\$1,014,803
City's portion of North Huron Valley/Rouge Valley sewer System Combined Sewer Overflow Basin: Construction	20,231
Equipment replacement	<u>434,349</u>
Total restricted assets	<u><u>\$1,469,383</u></u>

The above assets result from the issuance of debt; therefore, net assets have been restricted. Net assets of \$118,118 have been restricted, however, pursuant to an Environmental Protection Agency (EPA) requirement for certain required construction not related to the matters listed above. No specific assets have been restricted to this EPA- mandated reserve.

9) RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims except workers' compensation. In addition, the City retains risk for general liability claims, as a result of significant deductible levels. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City is uninsured for workers' compensation claims outside of certain limits. The City has purchased insurance for specific occurrences in excess of \$300,000 and occurring within the insurance policy periods.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

9) RISK MANAGEMENT (Continued)

The City estimates the liability for workers' compensation claims and general liability deductibles that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the years ended June 30 are as follows:

	<u>2007</u>	<u>2006</u>
Estimated Liability - Beginning of year	\$2,785,981	\$3,290,981
Estimated claims incurred, including changes in estimates - Net	322,716	940,283
Claim payments	<u>(706,163)</u>	<u>(1,445,283)</u>
Estimated liability - End of year	<u>\$2,402,534</u>	<u>\$2,785,981</u>

10) CONTINGENCIES

The City is a defendant in several lawsuits and asserted claims. While an estimate of the liability, net of available insurance coverage, related to these matters has been recorded, management and legal counsel believe the City's ultimate exposure with respect to these actions is not currently determinable. Hence, it is reasonably possible that the ultimate costs, if any, related to the resolution of these matters could differ materially from the amounts provided.

11) JOINT VENTURES

The City is a member of the Nankin Transit Commission, which provides transportation services to residents of Garden City, Westland, Canton, Wayne, and Inkster. The participating communities provide annual funding for its operations. During the current year, the City contributed \$34,000 for its operations. The City has no material equity interest in the Nankin Transit Commission at June 30, 2007. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Nankin Transit Commission can be obtained from the administrative offices at 37137 Marquette, Westland, Michigan 48185.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

11) JOINT VENTURES (Continued)

The City is also a member of the Central Wayne County Sanitation Authority (the "Authority"). The City appoints one member to the joint venture's governing board, which approves the annual budget. The debt of the joint venture is being financed by operations and member millage. The City contributed approximately \$527,500 for sanitation costs passed through the Authority. The City has recorded an investment related to its share of the net asset position of the Authority at \$193,830 in the government-wide statement of net assets.

Complete financial statements for the Authority can be obtained from the administrative offices at 3759 Commerce Court, Wayne, Michigan 48184.

12) DEFINED BENEFIT PENSION PLAN

Plan Descriptions

The City contributes to the Police and Fire Retirement System and to the General Employee Retirement System, which are administrators of single-employer public employees' retirement systems that generally cover all full-time police and fire employees and general employees of the City, respectively. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries.

Police and Fire Retirement System

At July 1, 2007, the date of the most recent actuarial valuation, membership consisted of 56 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 77 current active employees. The plan does not issue a separate financial report.

Contributions- Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.44 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

12) DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost – For the year ended June 30, 2007, the City's annual pension cost of \$185,035 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at July 1, 2007 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined based on a five-year smoothed market. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 10 years.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Police and Fire Retirement System			
Annual pension cost (APC)	\$185,035	\$121,130	\$485,107
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$0	\$0	\$0

General Employee's Retirement System

At July 1, 2006, the date of the most recent actuarial valuation, membership consisted of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 63 current active employees. The plan does not issue a separate financial report

Contributions – Plan members' contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

12) DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost – For the year ended June 30, 2007, the City's actuarially determined contribution for the plan was \$329,381. The City actually contributed and expensed \$533,537 for its current year contribution. The difference between the required and actual contribution has been recorded as a prepaid asset in the government-wide statement of net assets. The annual required contribution was determined as part of an actuarial valuation at July 1, 2006 using the aggregate actuarial cost method. Signification actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of assets was based on stated contract value for funds invested in the general accounts of an insurance company and market value for funds invested in insurance company separate accounts.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30			
	2007	2006	2005	2004
General Employees' Retirement System:				
Annual pension cost (APC)	\$329,381	\$329,381	\$454,487	\$320,779
Percentage of APC contributed	162%	158%	87%	96%
Net pension obligation	\$0	\$0	\$58,247	\$11,594

13) POST-EMPLOYMENT BENEFITS

The City provides health care benefits to all full time employees upon retirement, in accordance with labor contracts. There were eighty-three retirees at June 30, 2007. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 50 percent contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due and totaled approximately \$486,000 during the year.

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

**CITY OF INKSTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

14) STATE GRANT – WATER AND SEWER FUND

During 2007, the City received S2 grant funds from the State of Michigan for engineering/design costs relative to a proposed vertical capture shaft/combined sewage retention and treatment structure. The City has ultimately decided not to build this structure due to design issues. Under the provisions of the grant agreement, S2 grant funds are required to be repaid, with interest, where "the project has been identified as being in the fundable range and the applicant declines loan assistance from the state water pollution control revolving fund or the fund in that fiscal year."

Although the City meets the criteria for repayment, the State has indicated that if the City successfully provides all necessary application materials in a timely manner, consistent with an executed milestone schedule, and closes on loan assistance during fiscal 2008, the State does not intend to require the funding to be repaid.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF INKSTER, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property Taxes	\$7,494,500	\$7,494,500	\$7,537,645	\$43,145
Licenses and Permits	341,600	341,600	379,428	37,828
Federal Grants	0	0	27,000	27,000
State-Shared Revenues and Grants	4,777,613	4,777,613	4,632,060	(145,553)
Charges for Services	1,925,818	1,895,068	1,765,541	(129,527)
Interest	90,000	90,000	307,098	217,098
Administrative Charges and Other Revenue	2,875,960	2,953,403	2,710,073	(243,330)
Total Revenue	17,505,491	17,552,184	17,358,845	(193,339)
Expenditures				
General Government	2,806,859	2,873,859	2,759,991	113,868
Public Safety	6,824,255	6,824,255	6,741,898	82,357
Highways, Streets, and Public Works	2,962,083	2,715,515	2,637,551	77,964
Grant Expenditures	0	0	27,000	(27,000)
Cultural and Recreation	642,551	184,337	174,886	9,451
Nondepartmental	4,184,840	4,152,790	4,156,209	(3,419)
Total Expenditures	17,420,588	16,750,756	16,497,535	253,221
Excess of Revenue Over (Under) Expenditures	84,903	801,428	861,310	59,882
Other Financing Sources (Uses)				
Operating Transfer (Out)	0	(508,500)	(508,500)	0
Total Other Financing Sources (Uses)	0	(508,500)	(508,500)	0
Net Change in Fund Balance	84,903	292,928	352,810	59,882
Fund Balances - July 1, 2006	1,089,558	1,089,558	1,089,558	0
Fund Balances - June 30, 2007	\$1,174,461	\$1,382,486	\$1,442,368	\$59,882

**CITY OF INKSTER, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – MAJOR STREETS FUND
YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue				
State-Shared Revenues and Grants	\$1,943,984	\$1,943,984	\$1,211,434	(\$732,550)
Charges for Services	206,265	206,265	0	(206,265)
Interest	30,000	30,000	77,916	47,916
Transfer from other funds	0	0	155,864	155,864
Total Revenue	<u>2,180,249</u>	<u>2,180,249</u>	<u>1,445,214</u>	<u>(735,035)</u>
Expenditures				
Highways, Streets, and Public Works	1,551,600	2,001,600	1,171,400	830,200
Debt Service	275,015	275,015	274,689	326
Total Expenditures	<u>1,826,615</u>	<u>2,276,615</u>	<u>1,446,089</u>	<u>830,526</u>
Excess of Revenue Over (Under) Expenditures	<u>353,634</u>	<u>(96,366)</u>	<u>(875)</u>	<u>\$95,491</u>
Fund Balances - July 1, 2006	<u>1,824,642</u>	<u>1,824,642</u>	<u>1,824,642</u>	
Fund Balances - June 30, 2007	<u>\$2,178,276</u>	<u>\$1,728,276</u>	<u>\$1,823,767</u>	

**CITY OF INKSTER, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – LOCAL STREETS FUND
YEAR ENDED JUNE 30, 2007**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared Revenues and Grants	\$516,680	\$516,680	\$503,669	(\$13,011)
Interest	35,000	35,000	116,012	81,012
Property Taxes	1,330,000	1,330,000	1,160,501	(169,499)
Bond Proceeds	0	0	5,000,000	5,000,000
Total Revenue	1,881,680	1,881,680	6,780,182	4,898,502
Expenditures				
Highways, Streets, and Public Works	4,522,776	4,522,776	4,067,718	455,058
Debt Service	1,235,379	1,235,379	1,173,902	61,477
Total Expenditures	5,758,155	5,758,155	5,241,620	516,535
Excess of Revenue Over (Under) Expenditures	(3,876,475)	(3,876,475)	1,538,562	\$5,415,037
Fund Balances - July 1, 2006	5,003,286	5,003,286	5,003,286	
Fund Balances - June 30, 2007	\$1,126,811	\$1,126,811	\$6,541,848	

**CITY OF INKSTER, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
PENSION SYSTEM SCHEDULES OF FUNDING PROGRESS
JUNE 30, 2007**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Over-Funded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
7/1/99*						
7/1/00	\$7,393,000	\$7,393,000	\$0	100.0	\$1,838,000	0.0
7/1/01*						
7/1/02	7,062,000	7,062,000	0	100.0	1,949,000	0.0
7/1/03*						
7/1/04	7,177,000	7,177,000	0	100.0	1,884,000	0.0
7/1/05*						
7/1/06	7,991,000	***7,991,000	0	100	2,134,232	0.0
7/1/07*						
<u>Police and Fire Retirement System</u>						
7/1/99	24,559,000	20,047,000	4,512,000	122.5	3,456,000	130.6
7/1/00	26,426,000	22,448,000	3,978,000	117.7	3,805,000	104.5
7/1/01	27,862,000	24,224,000	3,638,000	115.0	4,447,000	81.8
7/1/02	28,489,000	24,758,000	3,731,000	115.0	4,235,000	88.1
7/1/03	28,125,000	25,884,000	2,241,000	108.7	3,842,000	58.3
7/1/04	27,624,000	26,981,000	643,000	100.2	4,687,000	13.7
7/1/05	27,465,000	25,168,000	2,297,000	109.1	4,639,000	49.5
7/1/06	27,460,000	26,195,000	1,265,000	104.8	4,539,000	27.8
7/1/07	28,519,000	27,116,000	1,403,000	105.2	4,473,940	31.3

* A valuation was not done for the years indicated.

*** At July 1, 2006, the valuation disclosed the present value of vested benefits as approximating \$9,063,000. In prior valuations, the present value of vested benefits approximated the actual value of assets at the corresponding date.

**CITY OF INKSTER, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
PENSION SYSTEMS SCHEDULES OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2007**

The schedule of funding progress is as follows:

General Employees' Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1999	7/1/98	\$144,726	100.0
2000	7/1/98	106,710	100.0
2001	7/1/00	201,310	100.0
2002	7/1/00	213,736	100.0
2003	7/1/02	327,206	69.0
2004	7/1/02	320,779	96.0
2005	7/1/04	454,487	87.2
2006	7/1/04	454,487	100.0
2007	7/1/16	329,381	100.0

Police and Fire Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1999	7/1/97	\$175,642	100.0
2000	7/1/98	242,903	100.0
2001	7/1/99	290,625	100.0
2002	7/1/00	353,356	100.0
2003	7/1/01	464,781	100.0
2004	7/1/02	451,695	100.0
2005	7/1/04	485,107	100.0
2006	7/1/06	121,130	100.0
	7/1/07	185,035	100.0

* The City's policy is to calculate a percentage of payroll, at which it will make its employer plan contributions such that the resultant contribution amount is within the range of the alternatives presented in the actuarial valuations. The contribution amounts presented represent the actual contributions recorded by the City in the respective fiscal years.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2005, the latest actuarial valuation date, follows:

General Employees' Retirement System

Actuarial Cost Method	Aggregate
Amortization Method	N/A
Amortization Period (perpetual)	N/A
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return*	7.0%
Projected Salary Increases*	3%
* Includes Inflation at	3%
Cost of Living Adjustments	None

Police and Fire Retirement System

Actuarial Cost Method	Individual entry age
Amortization Method	Level percent of payroll, open
Amortization Period (perpetual)	30 years
Asset Valuation Method	Five-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return**	8.00%
Projected Salary Increases**	4%
** Includes Inflation at	4%
Cost of Living Adjustments	None

CITY OF INKSTER, MICHIGAN
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2007

Budgetary Information – The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City is the department level. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Financing proceeds related to debt issuance have been included in the "revenue" category rather than as "other financing sources."

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City incurred General Fund expenditures that were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
Grant Expenditures	\$0	\$27,000
Nondepartmental	4,152,790	4,156,209

OTHER SUPPLEMENTAL INFORMATION

**CITY OF INKSTER, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	Non-Major Special Revenue Funds			Non-Major Capital Projects Funds		Total Non-Major Governmental Funds
	Grants	Drug Law Enforcement	Parks & Recreation	Capital Improvements	Sidewalk Revolving	
Assets						
Cash And Investments	\$39,100	\$8,463	\$218,853	\$90,256	\$17,670	\$374,342
Accounts Receivables	18,304	0	0	0	0	18,304
Due From Other Funds	11,810	0	0	0	0	11,810
Due From Other Governmental Units	585,762	0	0	0	0	585,762
Total Assets	\$654,976	\$8,463	\$218,853	\$90,256	\$17,670	\$990,218
Liabilities And Fund Balances						
Liabilities						
Accounts Payable	\$39,039	\$6,920	\$59,228	\$0	\$550	\$105,737
Due To Other Funds	70,985	0	0	0	0	70,985
Due to Component Units	536,918	0	0	15,159	0	552,077
Deferred Revenue	248,034	0	0	0	0	248,034
Total Liabilities	894,976	6,920	59,228	15,159	550	976,833
Fund Balances - Unreserved	(240,000)	1,543	159,625	75,097	17,120	13,385
Total Liabilities And Fund Balances	\$654,976	\$8,463	\$218,853	\$90,256	\$17,670	\$990,218

**CITY OF INKSTER, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	Non-Major Special Revenue Funds			Non-Major Capital Projects Funds		Total Non-Major Governmental Funds
	Grants	Drug Law Enforcement	Parks & Recreation	Capital Improvements	Sidewalk Revolving	
Revenue						
Property Taxes	\$0	\$0	\$658,788	\$0	\$0	\$658,788
Federal Grants	913,105	0	0	0	0	913,105
State Grants	0	0	0	0	0	0
Interest Income	0	0	12,983	13,256	937	27,176
Other	0	0	45,847	271,515	0	317,362
Total Revenue	\$913,105	\$0	\$717,618	\$284,771	\$937	\$1,916,431
Expenditures						
Public Safety	\$0	\$56,560	\$0	\$7,744	\$0	\$64,304
Grant Expenditures	1,153,105	0	0	0	0	1,153,105
Debt Service	0	0	0	0	0	0
Other	0	0	1,066,493	0	0	1,066,493
Total Expenditures	1,153,105	56,560	1,066,493	7,744	0	2,283,902
Excess of Revenue Over (Under) Expenditures	(240,000)	(56,560)	(348,875)	277,027	937	(367,471)
Operating Transfers In	0	56,000	508,500	0	0	564,500
Operating Transfers (Out)	0	0	0	(307,500)	0	(307,500)
Fund Balances - July 1, 2006	0	2,103	0	105,570	16,183	123,856
Fund Balances - June 30, 2007	(\$240,000)	\$1,543	\$159,625	\$75,097	\$17,120	\$13,385

CITY OF INKSTER, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF NET ASSETS FIDUCIARY FUNDS
JUNE 30, 2007

	Pension Trust Funds		
	General Employees' Retirement System	Police and Fire Retirement System	Total
Assets			
Cash	\$0	\$210	\$210
Investments:			
Corporate bonds	0	1,254,031	1,254,031
U.S. Government Securities	0	326,264	326,264
U.S. Government Agency Securities	0	7,785,798	7,785,798
Common and Preferred Stock	0	19,033,350	19,033,350
Pension Equity Mutual Funds	0	0	0
Pension Guarantee Contract Pooled Fund	8,094,952	0	8,094,952
Bank Investment Pools and Pooled Investment Fund	55,715	868,685	924,400
Receivables	127,254	52,487	179,741
Net Assets - Held in Trust for Employee Pension Benefits	\$8,277,921	\$29,320,825	\$37,598,746

**CITY OF INKSTER, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF CHANGES IN NET ASSETS FIDUCIARY FUNDS
JUNE 30, 2007**

	General Employees' Retirement System	Police and Fire Retirement System	Total
Additions			
Investment Income:			
Interest and Dividends	\$487,634	\$800,044	\$1,287,678
Net Increase (decrease) in Fair Value of Investments	(5,280)	2,421,730	2,416,450
Net Investment Income (Loss)	482,354	3,221,774	3,704,128
Contributions:			
Employer	533,537	185,035	718,572
Employee	110,829	300,235	411,064
Total Additions	1,126,720	3,707,044	4,833,764
Deductions			
Benefit Payments	484,565	1,623,110	2,107,675
Refunds of Contributions	28,968	22,793	51,761
Administrative Expenses	39,698	273,559	313,257
Total Deductions	553,231	1,919,462	2,472,693
Net Increase (Decrease)	573,489	1,787,582	2,361,071
Net Assets - Held in Trust for Pension Benefits			
Beginning of Year	7,704,432	27,533,243	35,237,675
End of Year	\$8,277,921	\$29,320,825	\$37,598,746

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Detroit, MI 48202

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(313) 873-7502 (Fax)
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December 20, 2007

Honorable Mayor and
Members of the City Council
City of Inkster
Inkster, MI 48141

In planning and performing our audit of the financial statements of the City of Inkster, Michigan (the City) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in the internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Exhibit A identifies the deficiency that we consider to be a significant deficiency in internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe item #1, as detailed in Exhibit A, to be a material weakness.

This communication is intended solely for the information and use of the Mayor, members of City Council, management, and others within the City of Inkster, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Alan C. Young & Associates, P.C.
Certified Public Accountants & Consultants

1. FINANCIAL STATEMENT PREPARATION

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

The City has historically relied upon their auditors for the preparation of financial statements and footnotes.

Causes:

The staff of the City does understand all information included in the annual financial statements; however, the external auditor was utilized in preparing the financial statements and the footnotes to the financial statements.

Effect:

Utilization of the external auditor in preparing the financial statements and the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation:

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.